Legislative Audit Division

State of Montana

Report to the Legislature

October 2005

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2005

Montana Department of Transportation

This report contains twelve recommendations to the department. Issues addressed in the report include:

- **Compliance with federal regulations and controls over federal compliance regarding:**
  - **Materials testing rates**
  - **Indirect cost rate calculations**
  - **Davis-Bacon Act requirements**
  - **Cash management requirements**
  - **Highway Traffic Safety Program controls**
- **Accounting controls and misstatements regarding:**
  - **Controls over collections**
  - **Unconstitutional payments**
  - **Unrecorded revenues and expenditures**
  - **Recording infrastructure assets**
  - **Cash change funds**
  - **Reconciliation of travel advances**
- **Statutory housekeeping**

Direct comments/inquiries to:
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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report, which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2005, will be issued by March 31, 2006. The Single Audit Report for the two fiscal years ended June 30, 2003, was issued on March 23, 2004. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
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October 2005

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana Department of Transportation for fiscal years 2003-04 and 2004-05. Included in this report are recommendations concerning compliance with federal regulations and controls over federal compliance regarding materials testing rates, indirect cost rate calculations, Davis-Bacon Act and cash management requirements, and the Highway Traffic Safety Program; accounting controls and misstatements, including controls over collections, unconstitutional payments, unrecorded revenues and expenditures, infrastructure assets, cash change funds, and travel advances; and statutory housekeeping. The department's written response to audit recommendations is included in the back of the report.

We thank the director and department personnel for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Scott A Seacat

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Legislative Audit Division

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 2005

Montana Department of Transportation

Members of the audit staff involved in this audit were Pearl M. Allen, John B. Fine, Geralyn Hoffman, Brenda Kedish, Alexa O'Dell, Melissa Soldano, and Amber Thorvilson.

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			Term Expires
Montana Transportation Commission	William T. Kennedy, Chair	Billings	2005
	Nancy Espy, Vice Chair	Broadus	2007
	Rick Griffith	Butte	2009
	Kevin Howlett	Arlee	2007
	Deb Kottel	Great Falls	2009
Montana Aeronautics Board	Tricia McKenna, Chair	Belgrade	2009
	Ted Schye, Vice Chair	Fort Peck	2009
	Roger Lincoln, Secretary	Gilford	2009
	Craig Denney	Billings	2007
	Bill Hunt, Jr.	Shelby	2009
	Fred Leistiko	Kalispell	2009
	Lonnie M. Leslie	Miles City	2007
	Charles J. Manning	Kalispell	2007
	John Rabenberg	Fort Peck	2007

Montana Department of Transportation

Administrative Officials

Jim Lynch, Director
Jim Currie, Deputy Director
Jennifer Jensen, Acting Administrator, Human Resources
Tim Reardon, Chief Counsel, Legal Services
Priscilla Sinclair, State Highway Traffic Safety Officer
Monte Brown, Administrator, Administration Division
Debbie Alke, Administrator, Aeronautics Division
Loran Frazier, Acting Administrator, Highways Engineering Division
Richard Clark, Administrator, Information Services Division
John Blacker, Administrator, Maintenance Division
Drew Livesay, Administrator, Motor Carrier Services Division
Sandy Straehl, Administrator, Rail, Transit & Planning Division

District Administrators

Dwane Kailey, Acting – Missoula
Jeff Ebert – Butte
Mick Johnson – Great Falls
Bruce Barrett – Billings
Ray Mengel – Glendive

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Montana Department of Transportation

This report documents the results of our financial-compliance audit of the Montana Department of Transportation (department) for the two fiscal years ended June 30, 2005. We issued an unqualified opinion on the financial schedules presented in this report. This means the reader may rely on the presented financial information and the supporting information on the state's accounting system.

This report contains twelve recommendations directed to the department. The first five recommendations concern compliance with federal regulations and controls over federal compliance regarding materials testing rates, indirect cost rate calculations, Davis-Bacon Act and cash management requirements, and the Highway Traffic Safety Program. There are six accounting control or misstatement issues related to collections, unconstitutional payments, unrecorded revenues and expenditures, infrastructure assets, cash change funds, and travel advances. The last recommendation concerns state laws that may need to be amended or clarified. Of the nine recommendations from the prior audit, we found the department fully implemented five recommendations, and partially implemented four recommendations.

The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

<u>Recommendation #1</u>

We recommend the department implement control procedures over materials testing project charges to ensure compliance with federal cost allowability requirements. 6

Department Response: Concur. See page B-4.

<u>Recommendation #2</u>

We recommend the department calculate indirect cost rates in accordance with federal regulations and state law. 8

Department Response: Concur. See page B-4.

Introduction

We performed a financial-compliance audit of the Montana Department of Transportation (department), for the two fiscal years ended June 30, 2005. The objectives of the audit included:

1. Making recommendations for improvements in the management and internal controls of the department, if appropriate.
2. Determining if the department complied with selected state and federal laws and regulations during the audit period.
3. Determining the implementation status of prior audit recommendations.
4. Determining if the department's financial schedules present fairly the results of operations for each of the two fiscal years ended June 30, 2004 and 2005, and if the department's Schedule of Expenditures of Federal Awards for each of these fiscal years was fairly presented in relation to the financial schedules.

As required by section 17-8-101(6), MCA, we performed procedures to evaluate charges for services for costs incurred in the department's two Internal Service Funds. We found the charges and fund equity were reasonable and commensurate with costs for the equipment and motor pool Internal Service Funds.

In accordance with section 5-13-307, MCA, we analyzed the costs to implement the recommendations in this report and believe the costs are not significant.

Background

The Montana Department of Transportation is responsible for establishing a public transportation system that emphasizes safety, environmental preservation, cost-effectiveness, and quality.

The department is under the direction of the Transportation Commission (commission) and the director. The commission is comprised of five members appointed by the Governor and confirmed by the Senate for four-year terms. The commission determines construction priorities, selects construction projects, awards construction contracts, and allocates funding to state, local, and national highway system projects. It also classifies highways as federal aid, primary, and off-system in the state maintenance system. The commission may delegate certain functions to the director, who is appointed by the Governor and confirmed by the Senate.

The department was budgeted 2,306.42 full-time equivalent (FTE) positions during fiscal year 2004-05. The department's primary sources of funding are federal funds and state motor fuel taxes. Department activities are organized under the Director's Office and seven divisions as described below:

Director's Office (47.50 FTE) - provides overall direction and management to the department. Included under the Director's Office are Legal Services, Internal Audit, Public Information, and Human Resources.

Administration (60.32 FTE) - provides administrative support services including accounting, budgeting, financial planning, and purchasing. The Administration Division administers motor fuel tax laws and collects taxes on gasoline and diesel fuel.

Aeronautics (11.29 FTE) - facilitates the maintenance of airports, registers aircraft and pilots, and coordinates and supervises aerial search and rescue operations. The Aeronautics Board, whose major function is approving airport grant requests, advises the division.

Highways & Engineering (1,069.59 FTE) - is responsible for project planning through construction. This includes project design, right-of-way acquisitions, issuing contract bid requests, addressing environmental concerns, awarding contracts, and administering construction contracts. Personnel in five districts (Billings, Butte, Glendive, Great Falls, and Missoula) and in Helena supervise and monitor work done by private contractors.

Information Services (57.95 FTE) - provides department-wide IT services including network operations, application development, user support, records management, and printing.

Maintenance (889.17 FTE) - is responsible for maintaining the state's highway systems and its related facilities, equipment and motor pool vehicles, and road condition information and reports.

Motor Carrier Services (111.50 FTE) - provides services to the commercial motor carrier industry in Montana, enforces statutes and regulations related to vehicle weight, size, licensing, fuel, and safety on the state's highways, and collects gross vehicle weight fees.

Rail, Transit & Planning (59.10 FTE) - provides technical and monetary assistance to local communities and transit authorities for planning, organizing, operating, and funding public transportation systems.

Prior Audit Recommendations

The prior audit report for the two fiscal years ended June 30, 2003, contained nine recommendations to the department. The department implemented five recommendations, and partially implemented four recommendations. The recommendations partially implemented regarding federal Davis-Bacon requirements, management controls over infrastructure assets, cash change fund procedures, and travel advance reconciliations are discussed in this report beginning on pages 8, 18, 20, and 21, respectively.

Findings and Recommendations

Compliance with Federal Regulations and Controls over Compliance

During fiscal years 2003-04 and 2004-05, the department spent approximately $275 million and $300 million of federal-aid highway funds and $10.6 million and $7.5 million of federal highway traffic safety funds, respectively. During our audit, we tested the department's compliance with federal requirements of these programs and reviewed the department's controls for ensuring compliance with those federal requirements.

Federal regulations require the department to maintain internal control over federal programs that provides reasonable assurance it is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs. Controls should be designed to effectively prevent or detect and facilitate the correction of errors on a timely basis.

The following five report sections relate to issues where we believe compliance, or controls over compliance, with federal requirements should be improved. These sections concern materials testing and indirect cost rates charged to construction projects (cost allowability), Davis-Bacon Act, cash management, and Highway Traffic Safety Program requirements.

Materials Testing Rates

The department used an incorrect materials testing rate when charging costs to projects in fiscal year 2004-05.

The department charges projects for materials testing based on a rate calculated prior to the beginning of each fiscal year. Throughout the fiscal year, the department's computer system records materials testing charges by applying the materials testing rate from a table on the system to the contractor payments recorded for each project. The federal share of these costs is recovered through federal billings, based on the federal participation in each project.

For fiscal year 2004-05, the estimated Materials Bureau costs of $1,672,494 were divided by estimated contractor payments of $291,768,995 to obtain a materials testing rate of .57 percent.

When getting ready to input the fiscal year 2005-06 materials testing rate on the system table, department personnel reported to the Federal Highway Administration, Department of Administration, and us that they had discovered an incorrect rate of 7.89 percent, instead of the calculated rate of .57 percent, had been input into the table instead.

As a result, during fiscal year 2004-05, the department collected approximately $14.24 million more from the federal government for materials testing than it should have. We question these $14.24 million in costs. Because the projects charged for these costs incurred overruns, which had been paid from state funds, the department offset $4.32 million of the overcharges by billing the federal government for its share of other costs, for a net overcharge of $9.92 million. The department corrected its accounting records for the related accounting errors prior to the close of fiscal year 2004-05.

Department personnel believe this error occurred because of a lack of proper internal controls. They developed a plan to strengthen controls by computing the rates earlier to allow for a more thorough review, and by adding procedures to verify the rate used to charge projects for materials testing is the rate calculated and reviewed.

Recommendation #1
We recommend the department implement control procedures over materials testing project charges to ensure compliance with federal cost allowability requirements.

Indirect Cost Rate Calculations

The department did not calculate the fiscal year 2003-04 and fiscal year 2004-05 indirect cost rates in accordance with federal requirements and state law.

State law requires the department to, in accordance with appropriate federal regulations and guidelines, negotiate indirect cost reimbursement amounts and methodologies and recover indirect costs of federal assistance programs. OMB Circular A-87 requires all activities that benefit from the department's indirect costs to receive an appropriate allocation of indirect costs, and requires the department to prepare a cost allocation plan in accordance with the circular's Attachment E. The department's cost allocation plans for fiscal years 2003-04 and 2004-05, which were based on actual costs recorded for fiscal years 2001-02 and 2002-03, respectively, did not comply with these requirements, as described below.

- The cost allocation plans for fiscal year 2004-05 did not include the carry forward of over or under recoveries from fiscal year 2002-03. The department calculated an under recovery of indirect costs of $3,303,064 for fiscal year 2002-03 and $12,560,041 for fiscal year 2003-04, which it included in the fiscal year 2005-06 indirect cost rate calculation. These under recoveries of indirect costs were calculated by comparing federal indirect cost recoveries to total indirect costs incurred. This calculation did not consider the state's share of indirect costs. When the department subsequently recalculated its over or under recoveries, it found it had over recovered indirect costs of $6,385,997 for fiscal year 2002-03 and $1,446,199 for fiscal year 2003-04.
- The rates proposed, including subsidiary work sheets and other relevant data, were not fully reconciled to the costs from the state's primary accounting system.
- Department personnel calculate a single indirect cost rate for the department based on the total indirect and direct costs of all department programs. The rates calculated in the department's cost allocation plans do not result in an equitable allocation of indirect cost, as noted below:
    - In both fiscal years' plans, indirect costs were not calculated consistently for all of the department's programs. All indirect costs of four programs, federal indirect costs of one program, and no indirect costs of four programs were included in the indirect cost rate calculation.
    - Direct costs for the fiscal year 2003-04 calculation were limited to the federal share of direct program costs for four of the department's nine programs. The fiscal year 2003-04 direct cost amounts were not updated and were used again in the fiscal year 2004-05 rate calculation.

The department's federal indirect cost recoveries were approximately $34 million in each fiscal year 2003-04 and 2004-05, based on federally approved rates of 13.68 percent and 12.38 percent, respectively. Errors in the indirect cost rate calculation can result in over or under recoveries of indirect costs, creating fluctuations in future years' rates.

Errors in the calculation and application of indirect cost rates can cause a disproportionate share of indirect costs to be charged to federal funds. Because we believe the department's indirect costs are disproportionately charged to federal funds by more than $10,000, we question the allowability of the department's federal indirect cost charges. Department personnel did not understand why errors, such as numbers that were not updated, were not identified during their review and the Federal Highway Administration's subsequent review of the cost allocation plans prior to approving the rates.

Recommendation #2
We recommend the department calculate indirect cost rates in accordance with federal regulations and state law.

Davis-Bacon Act Requirements

The department's policy on approving subcontracts to ensure all subcontractors comply with federal Davis-Bacon Act requirements for the Highway Planning and Construction Program is not clear.

The department's Civil Rights Bureau (CRB) is responsible for the department's compliance with Davis-Bacon Act requirements that wages paid to highway construction workers and mechanics not be less than the prevailing wage established by the U. S. Department of Labor. Davis-Bacon Act requirements cover any subcontract (at any level, or tier) let under a prime contract subject to those requirements. The CRB's responsibilities for monitoring Davis-Bacon Act requirements include reviewing weekly-certified payroll reports from contractors and subcontractors working on federal-aid construction projects. At the completion of the construction project, CRB prepares a labor certification letter that indicates all the required payrolls for the project have been received and reviewed.

Construction Bureau documents its approval of a subcontractor by issuing a consent letter. CRB receives a copy of all subcontractor consent letters from the department's Construction Bureau. CRB personnel use these letters to identify which subcontractor payrolls they should expect to receive and to investigate if the payrolls have not been received. Since payrolls are received by CRB through the project engineers for all contractors and subcontractors, CRB may receive payrolls for subcontractors regardless of whether it has received a copy of the consent letter. We found CRB received payrolls for two subcontractors for which it did not receive a consent letter from Construction Bureau, one for each of two of the seven active projects we tested.

Department policy states "Do not allow any Subcontractor to start work until its subcontract is approved by the Construction Engineer in Helena." In September 2000, the Construction Bureau issued a memorandum to clarify when a subcontract must be submitted to Helena for approval. That memorandum stated, "Third, fourth, etc. tier subcontractors DO NOT need an approved contract." Because policy is not clear regarding these requirements, Construction Bureau does not issue consent letters for all subcontractors. Therefore, CRB may not be aware of all subcontractors working on a project. Without consent letters for all subcontractors, CRB cannot identify missing payrolls and ensure compliance with Davis-Bacon Act requirements.

Recommendation #3
We recommend the department clarify its policies on approving subcontracts to ensure compliance with federal Davis-Bacon Act provisions.

Cash Management Requirements

The department does not seek reimbursement for the federal share of costs in a timely manner, in accordance with federal cash management requirements.

The department is responsible for minimizing the time between the drawdown of funds from the federal government and the disbursement of funds. To accomplish this, the department must comply with the requirements of the state's Cash Management Improvement Act (CMIA) agreement, which is negotiated annually by the Department of Administration and the U.S. Department of the Treasury, for certain federal programs. We identified the following concerns related to the department's compliance with federal cash management requirements.

Highway Planning and Construction Program

Under the state's CMIA agreements during the audit period, the department was to draw construction, consultant, and payroll costs on Wednesday of each week for the previous Wednesday through Tuesday in time to receive those funds from the federal government on the following day. We found the department drew for costs incurred on a weekly basis except for the first week of the month, which is typically a smaller draw than other weeks due to the timing of contractor payments and payroll. The department's federal billings are based on the department's cost accounting system, which the department closes monthly. Department personnel told us this closing process was generally not complete until the 10^{th} of the month, so department personnel did not usually request a federal drawdown until the second week of the month. There were often two draws performed in the second week of the month: one for the end of the previous month not covered by the last draw and one for the first through the current date of the new month. Department personnel said they sometimes draw for the end of the previous month earlier, but must draw for the end of the previous month separately from the beginning of the current month with the system they have. Because the department is seeking reimbursement for the federal share of costs later than agreed to in the CMIA agreement, it is losing investment earnings on money that would otherwise be invested in the department's Highway Special Revenue Fund. Based on information provided by department personnel, we estimated lost investment earnings of $17,673 during fiscal year 2004-05 as a result of not drawing federal funds in accordance with the CMIA agreement.

Highway Traffic Safety Program

The department bills for the Highway Traffic Safety Program (HTSP) on a monthly reimbursement basis and tries to bill within one month of the end of the month for which it is billing. However, billings were made on an average of 47 days after the end of the month being billed. Department personnel attributed the billing delay to project cost accounting records not being available for ten days after the close of the month and the time-consuming nature of the HTSP comparison of the billing to its spreadsheet of costs paid and the project cost accounting system. The average monthly billing for the HTSP was $652,000 during the audit period. The department should request HTSP federal reimbursement more frequently and timely so the use of state funds for federal programs and the resulting loss of interest earnings is minimized. We estimated the department's Highway Special Revenue Fund lost investment earnings totaling $48,253 in fiscal years 2003-04 and 2004-05 as a result of untimely HTSP billings.

Department personnel should establish procedures to ensure cash draws are made in accordance with applicable federal cash management requirements to minimize the use of state funds to finance federal program costs prior to the receipt of federal funds and to maximize investment earnings.

Recommendation #4
We recommend the department establish management controls to ensure compliance with applicable federal cash management requirements.

Management Controls Related to Highway Traffic Safety

The department's Highway Traffic Safety Program does not have adequate management controls to ensure compliance with federal regulations and HTSP policy.

The HTSP is primarily funded with federal traffic safety and sanction funds administered by the National Highway Traffic Safety Administration (NHTSA). Funding for this program was $10.6 million in 2003-04, and $7.5 million in 2004-05. Funding levels in both years included construction funds that had to be spent on safety programs because of federal sanctions related to the state's open container and repeat intoxicated driver offenses laws.

In April 2003 the department received a letter from NHTSA indicating the federal agency had significant concerns about the staffing, management, and reporting of the program that warranted immediate action. Since that time, department management has worked to fill key positions and implement controls that include written procedures to address the concerns mentioned in our previous report, as well as concerns raised by federal program reviews and an internal audit of the program. While we noted the department addressed the issues identified in our previous report, we found the following concerns related to the program during the audit period indicating a need for continuing improvement.

- The amounts claimed as match for the grant periods ending during our audit period for all but the Planning and Administration portion of the Highway Safety Cluster, $510,345 in state fiscal year 2003-04 and $897,857 in state fiscal year 2004-05, were not supported. Department personnel told us the match amounts used were based on the amount of match needed per NHTSA's Grant Tracking System and represented Montana Highway Patrol (MHP) expenditures from state funds. A NHTSA representative told us the department can use MHP expenditures above the 1997 level for state match, but when we performed the audit the department did not have documentation as to what the 1997 MHP expenditure level was, what the total state MHP expenditures were for the grant period ending in state fiscal year 2003-04, and how much, if any, of the state's MHP expenditures were used as match for other federal assistance programs during the grant period ending in state fiscal year 2003-04. This documentation, which was later provided, is necessary to comply with federal cost allowability requirements, but not all of these documentation requirements are addressed in the HTSP's Procedures Manual. Therefore, we question costs of $1,433,576 and $1,366,787 for the grant periods ending in fiscal years 2003-04 and 2004-05, respectively.

- One of the HTSP subrecipients billed and was paid one-twelfth the budgeted indirect cost amount in its contract each month from September 2002 through March 2005, instead of 10 percent of personnel costs as required by contract, until we reported the problem to department personnel. The amount overpaid through March 2005 was $5,328.07. Department personnel told us the subrecipient has agreed to pay back the amount overpaid through $888 reductions in six monthly payments from the department through the end of September 2005. The department is repaying the federal government by reducing its monthly federal billings by the same amount.

- HTSP costs are paid from the Highway Special Revenue Fund until Administration Division personnel prepare monthly federal billings for the HTSP. These billings are prepared primarily from the department's project cost accounting system. HTSP personnel maintain a spreadsheet of project costs as bills are paid, which they compare, but do not fully reconcile, to the project cost accounting system and the monthly federal billing. Final billings for grant periods ending during the audit period differed from the department's cost accounting records, as follows:

Fiscal Year	Cost Accounting	Final Billing	Difference
2003-04	$4,936,318.99	$4,831,574.99	$104,744.00
2004-05	$9,322,217.59	$9,210,216.48	$112,001.11

Department personnel said the proper amount had been billed for each fiscal year and the project cost accounting records contained state match that was properly not billed and accounting errors, which they later corrected. They said the fiscal year 2004-05 errors had occurred because of changes in procedures for charging indirect costs on the cost accounting records.

- HTSP policy requires equipment costing over $5,000, and permits equipment costing $500 to $4,999, that is purchased with federal funds to be inventoried at least once every two years through a certification process with the subrecipients for whom the equipment was purchased. During the 2003 certification process, the program did not receive the requested certification for two equipment items costing $10,700 and $35,600. After we brought this to the attention of HTSP personnel, they obtained certification for these two items. According to a spreadsheet provided by HTSP personnel, equipment costing more than $5,000 that was purchased in calendar year 2002 with $712,980 in federal funds had not been certified as of April 2005.

Although key positions have been filled for most of the audit period and key personnel work closely with NHTSA representatives, HTSP personnel indicated that dealing with past issues, including implementing an 11- page management action plan and issuing and updating a written procedures manual, have reduced the time available for operational processes, such as certification and billing. In May 2005, the department decided to hire a half-time accounting technician at an estimated cost of $20,850 per year to provide additional resources for operational processes.

HTSP personnel need to continue to evaluate and refine their current procedures to improve the controls over the HTSP, as noted above. HTSP management should monitor personnel to ensure they are following procedures to comply with federal program requirements and HTSP policy.

Recommendation #5

We recommend the department:

A. Evaluate, implement, and monitor compliance with control procedures to ensure compliance with federal requirements and Highway Traffic Safety Program policy.

B. Document support for match claimed.

C. Obtain repayment for unallowable subrecipient charges.

Accounting Controls and Misstatements

State law requires the department to input all necessary transactions on the state's accounting system before the end of the fiscal year to present the receipt, use and disposition of all money, for which it is accountable, in accordance with generally accepted accounting principles. During the audit we reviewed various aspects of the department's controls for ensuring compliance with this requirement. Controls should be designed to safeguard assets and to effectively prevent or detect and facilitate the correction of errors on a timely basis. We noted the following issues related to accounting controls misstatements.

Controls Over Collections

The department's procedure to compare receipt logs to deposits was not being performed.

The department receives collections, primarily for licenses and permits, in the mailroom, where the mail is opened and stamped,

checks are restrictively endorsed, and receipts are logged.
A mailroom clerk places daily collections, along with the log of those collections, in a basket for processing by cashiering. Although the clerk notifies cashiering when the collections are delivered, there is no process to ensure the clerk delivered collections that match the log. State policy requires that, when more than one employee handles amounts collected, accountability be established, if practicable, as the custody of money changes. State policy recommends use of a prenumbered transfer receipt for this purpose.

During the audit period, the department had established procedures to compare the log of receipts prepared by the mailroom to deposits, but this procedure was not being performed. On July 21, 2005, we noted collections logged in April 2005, including a $110 money order, had not been deposited. Department personnel were able to prove some of the checks collected had been returned to the payee, rather than deposited, but were unable to provide the disposition of the other items. We also noted a $540 check that was deposited but not logged, for which department personnel had no explanation. Timely reconciliation of items logged to items deposited is necessary to identify and resolve differences.

Recommendation #6
We recommend the department improve procedures to ensure collections are adequately safeguarded and properly recorded on its accounting records.

Unconstitutional Payments

The department made three payments for purchases of land in fiscal year 2004-05 that were unconstitutional because they were not charged to an appropriation.

Article VIII, Section 14 of the Montana Constitution states, “Prohibited payments. Except for interest on the public debt, no money shall be paid out of the treasury unless upon an appropriation made by law. …” Section 17-8-101, MCA, also provides for disbursement from certain treasury funds only on appropriation made by law.

Department personnel informed us on August 26, 2005, of three instances of noncompliance with these requirements that occurred between January 8 and February 1, 2005. In two instances, department personnel recorded Accounts Receivable for a total of $445,756 and in one instance recorded Accounts Payable for $1,541, instead of recording an expenditure. Department personnel told us emergency warrants were issued in this manner because people were waiting for a warrant and, although sufficient budget authority was available, it was not in the proper category for these expenditures. They also noted there was no follow-up to ensure the accounting errors created by these transactions were corrected prior to fiscal year-end 2005.

Department personnel attribute the situation that led to these transactions to a lack of communication between accounting, budget, and program personnel. They plan to reinstate financial teams for each program consisting of a representative from accounting, budget, and the program division to meet at least quarterly to review the financial activities of the program division and resolve errors on a timely basis.

Recommendation #7
We recommend the department disburse funds only upon an appropriation made by law.

Unrecorded Revenues and Expenditures

The department is not recording fuel tax collection costs, tribal payments, or bond issuance costs in accordance with generally accepted accounting principles (GAAP), as required by state law and accounting policy.

During the audit, we found the following three situations where the department reduced revenue instead of recording expenditures, contrary to GAAP and state law. Under GAAP, transactions should demonstrate compliance with legal provisions. State accounting policy also states, "If an agency is paying for the outside party on a regular basis as a convenience to the public or other outside person, the payment for these services should be recorded as an expense."

Collection Allowance

State law permits fuel distributors to retain one percent of the total gas and diesel tax on the distributor's monthly statements as a collection allowance. The department designed the monthly Distributor's License Report to compute the tax net of the collection allowance by using a rate that is approximately 99 percent of the rate approved in law. The department records the net amount remitted by the distributors as gas and diesel tax revenue, instead of recording revenue for the total taxes and expenditures for the collection allowance.

Department personnel told us they do not record revenue for the total tax because only the net tax amount is available to the department. However, we believe the gross tax amount was immediately available and was used to pay the collection allowance. State accounting policy requires payments for services to outside parties be recorded as an expenditure rather than a reduction of revenue. Recording revenue for the total tax and expenditures for the collection allowance would better reflect the substance of the activity. By recording fuel tax revenue in the current manner, the department understated tax revenue and collection expenditures by about $2.1 million and $2 million in fiscal years 2003-04 and 2004-05, respectively.

Tribal Payments

The department collects taxes on all gasoline distributed in the state, including gasoline sold on Indian reservations. Under five of six state-tribal cooperative agreements, the stated purpose of which is to avoid dual taxation and to ensure the same level of taxation on gasoline within and outside the boundaries of the reservations, the department pays tribes a negotiated amount times the number of enrolled tribal members. Under the sixth agreement, according to department personnel, the state pays the tribe an amount based on the number of gallons sold.

Department personnel told us the revenue collected by the state from distributors for gasoline sold on the reservations is not the state's when the state gets it from the distributors; the state is acting as an agent to collect the tax imposed by the tribes. The substance of the transactions is that the tribe will impose the tax, which the state will collect and keep in return for the agreed-upon payment to the tribe. State law provides the department the statutory appropriation authority necessary to make the tribal payments. By recording tribal payments in the current manner, the department understated tax revenue and local assistance expenditures by $3,761,166 and $3,752,973 in fiscal years 2003-04 and 2004-05, respectively.

Bond Issuance Costs

The department recorded bond premium for the amount of premium received net of the underwriter's discount ($859,565) and the related insurance premium ($463,000). Department personnel indicated they did not record the $1,322,565 as premium revenue because the underwriter withheld it and the department did not pay the related costs directly. GAAP requires debt issue costs paid out of debt proceeds, such as underwriter fees, be reported as expenditures.

Recommendation #8
We recommend the department record revenues and expenditures in accordance with state law and accounting policy.

Recording Infrastructure Assets

Department personnel did not record transactions related to infrastructure assets in accordance with state law and accounting policy.

During the audit period, the department was required by state accounting policy to record highways as assets on the state's accounting system. Transactions were also necessary to record the land the department has purchased for right of way, recognize depreciation expense, record an asset for highway construction projects that are in progress but not fully complete at the end of each fiscal year, and to remove the value of old highways that were rebuilt during the fiscal year. The transactions were necessary to facilitate the Department of Administration's preparation of the state of Montana's Basic Financial Statements in accordance with Governmental Accounting Standard Board Statement No. 34.

We noted several issues related to the process the department used to record infrastructure assets on the state's accounting system during the past audit and recommended the department establish management controls to ensure the accuracy of the transactions recorded for infrastructure assets. During this audit, we noted the following issues related to recording infrastructure assets.

- In the past, the department's procedure for determining the amount of land that should be recorded on the state's accounting system at fiscal year-end was to add up the cost of land in the Right of Way account on the department's cost accounting system. Because of time constraints, department personnel did not record the $19,783,843 of land the department owned at June 30, 2004 until fiscal year 2004-05 and had to provide this information as an adjustment to the state's financial statements.

- When Right of Way must purchase more land than it needs to get the land it does need, the Right of Way accountant is supposed to record the value of excess land purchases on the state's accounting system so the excess parcels can be tracked. Excess land valued at $6,928,849 was recorded twice in fiscal year 2003-04. The error was not corrected prior to June 30, 2005, so land was overstated by $6,928,849 at June 30, 2004 and 2005.

- When determining the amount of land to record at June 30, 2005, department personnel incorrectly included $1,354,247 from project cost accounting records that should not have been included in the calculation. As a result of this error, land was overstated by $1,354,247 at June 30, 2005.

- The department's procedures for fiscal year 2004-05 did not include an analysis to properly remove costs and accumulated depreciation for highways that are being replaced. The cost of the replacement highway was added to the infrastructure balance; however, the value of the replaced highway was not removed. Department personnel subsequently calculated infrastructure assets were overstated by approximately

$103 million and accumulated depreciation was overstated by the same amount at June 30, 2005.

We noted that most infrastructure transactions are recorded during the busy fiscal year-end period within a short time frame. Also, personnel have not fully documented the process, which created some confusion when there was turnover in positions responsible for recording these transactions. We believe the errors noted above necessitate the department establish controls to ensure the reasonableness of the transactions recorded for infrastructure assets. These controls should include a review of the overall logic of the transactions as well as a reasonableness review of the accounting ledgers.

Recommendation #9
We recommend the department establish controls to ensure the accuracy of the transactions recorded for infrastructure assets.

Cash Change Funds

The department's Accounting Division and Motor Carrier Services Division procedures regarding the issuance, custody, and return of cash change funds are not consistent and have not been fully implemented.

In our three previous audits of the department, we identified concerns about issuing, monitoring, and returning cash change funds used by Motor Carrier Services (MCS) officers. In a prior report, we noted the department had attempted to correct deficiencies and recommended the department monitor existing procedures to ensure appropriate accounting for the issuance, custody, and return of cash change funds. In our last audit, we reviewed this activity and found that the department established policies in January 2003.

During this audit, the department could not provide an accurate list of the officers who had cash change funds in June 2005. One individual on the list provided was terminated in February 2005, but was still included on the list as having a cash change fund. Another individual had a cash change fund of $100 but was not listed as having cash.

We found the policies have not been fully implemented and that procedures regarding change funds in the MCS manual are not consistent with the procedures the Administration Division expects MCS personnel to follow. Administration Division and MCS personnel should work together to develop consistent procedures and guidance for staff.

Recommendation #10
We recommend the department establish and implement consistent procedures to ensure appropriate accounting for the issuance, custody, and return of cash change funds.

Reconciliation of Travel Advances

The department does not regularly reconcile travel advances on its Payroll/Personnel system to the state's accounting records to ensure the system for monitoring travel advances is accurate.

Department personnel use the department's Payroll/Personnel system to track travel advances paid to employees. Department employees may obtain travel advances through the Human Resources (HR) module of the accounting system or through a warrant. We found the amount of advances outstanding from the department's Payroll/Personnel system for the pay period ending August 5, 2005, of $16,809 did not equal the advances outstanding on the accounting system of $19,086. Department personnel reconciled the total on its system to the state's primary accounting system from May 2004 to September 2004, but had not reconciled it since September 2004 when we discussed this issue with them in August 2005.

If an employee receives an advance through a warrant, the department's system needs to be manually updated. Without a complete reconciliation of the accounting system to the department's system, the department cannot be assured all outstanding advances are included on the department's system. Completeness of the department's system is important because it is used to monitor travel advances and is used to determine if the employee has an outstanding travel advance that needs to be repaid before termination.

Department personnel told us that, in addition to reconciling travel advances, they performed a process review of travel advances, implemented a new automated travel advance system, and achieved a drop in travel advances balances from $87,000 to $16,000. Department personnel said they are comfortable with the balances on their system because they have reconciled travel advances through September 3, 2004, and corrected errors in response to our prior audit recommendation. We believe the department should establish procedures to regularly reconcile and record transactions necessary to ensure the subsystem used by the department to monitor travel advances is complete and agrees with the state's accounting system.

Recommendation #11
We recommend the department regularly reconcile travel advances recorded on its Payroll/Personnel system to the state's primary accounting system.

Statutory Housekeeping

Statutes affecting the department's operations are out of date, need clarification, or are inconsistent with current practice.

During our audit we identified instances of non-compliance with state law and unclear statutes that the department should address by complying with the law or seeking legislation to change the law. Specific situations are described in the following sections.

Driver Training Programs

Section 61-2-103(2)(a), MCA, requires the department to "establish comprehensive training programs, including establishment and regulation of driver training schools, certification of the schools and instructors, and establishment of adult training and retraining programs." Section 61-2-103(2)(b), MCA, requires the department to "develop and procure practice driving facilities, simulators, and other teaching aids for school and driver training use;…" Department personnel told us they have not done this because the Office of Public Instruction has taken on this responsibility.

Drivers' License Reinstatement Fees

Section 61-2-107, MCA, currently requires the Department of Transportation to deposit one-half of certain drivers' license reinstatement fees in the General Fund and the other half in an account in the State Special Revenue Fund to be used for drinking and driving prevention programs. Section 61-2-108, MCA, currently requires the department to transmit the county portion of the license reinstatement fees collected in that county to the county treasurer, if the county has initiated and maintained a drinking and driving prevention program.

The Department of Justice distributes drivers' license reinstatement fees counties remit to the state, and the Department of Transportation calculates the county portion based on the law in effect when the driver's license was revoked, rather than based on when it is collected or distributed. Department personnel told us they use any funds collected from drivers' license reinstatement fees that are deposited into the State Special Revenue Fund and not paid to a county with an approved drinking and driving prevention program as state match for federal funds. Department personnel also noted that the laws do not address:

- whether there is a time limit for counties to receive the funds or for the receipt of a county plan for a drinking and driving prevention program; and
- how far back the fee calculation should go, when a county submits a plan for the first time.

Aircraft Registration Fees

Section 67-3-205(1), MCA, requires the department to:

A. Credit all money received from fees paid in lieu of tax on aircraft and all penalties collected for registration violations in an aircraft registration account;

B. Allocate 90 percent of the money in the account to the General Fund and 10 percent to the department for administering and enforcing aircraft registration; and

C. Make the General Fund allocation twice annually between March 15 to March 30 and July 1 to July 15 and the department's allocation on July 1.

During the audit period, the department deposited these receipts in its Aeronautics Division State Special Revenue Fund, where the department's 10 percent share remained. Until July 1, 2001, the 90 percent allocation was to counties. Because the allocation is now all within state funds, the amounts collected could be distributed upon receipt if the requirements in C above were removed.

Liability Insurance for Commercial Air Operators

Section 67-3-402, MCA, requires the department, after a public hearing, to set the amount of liability insurance reasonably necessary to provide adequate compensation for damage incurred through an accident involving a commercial air operator. Department personnel told us the department does not set the amount of liability insurance.

Recommendation #12

We recommend the department:

A. Comply with state laws concerning driver training programs, drivers' license reinstatement fees, distribution of aircraft registration fees, and liability insurance for commercial air operators.

B. Seek legislation, if necessary, to amend or clarify state laws concerning driver training programs, drivers' license reinstatement fees, distribution of aircraft registration fees, and liability insurance for commercial air operators.

Independent Auditor's Report & Department Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Montana Department of Transportation for each of the two fiscal years ended June 30, 2005, and June 30, 2004. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department’s assets, liabilities, and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Montana Department of Transportation for each of the fiscal years ended June 30, 2005, and 2004, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

August 31, 2005

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DEPARTMENT OF TRANSPORTATION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Permanent Fund
FUND BALANCE: July 1, 2004	$ (250,612)	$ 67,482,685	$ 0	$ 0	$ 827,922	$ 59,470,027	$ 278,490	$ 1,277
ADDITIONS								
Budgeted Revenues & Transfers-In	1,589,842	393,813,881	312,334,181		1,908,616	22,234,736		12,509
Nonbudgeted Revenues & Transfers-In	369,551	6,874,427			15	137,930	6,329	
Prior Year Revenues & Transfers-In Adjustments	(18,632)	(1,477,405)						(47)
Direct Entries to Fund Balance	(1,938,462)	(35,763,878)			(37,967)	(100)		(13,018)
Total Additions	2,299	363,447,025	312,334,181	0	1,870,665	22,372,566	6,329	(556)
REDUCTIONS								
Budgeted Expenditures & Transfers-Out		230,511,938	278,141,816		126,818	25,460,171		
Nonbudgeted Expenditures & Transfers-Out		7,002,244	34,192,365	(214,087)	44,398	(4,529,819)	4,266	
Prior Year Expenditures & Transfers-Out Adjustments		12,946			1,543	239,689		
Total Reductions		237,527,128	312,334,181	(214,087)	172,760	21,170,041	4,266	
FUND BALANCE: June 30, 2005	$ (248,313)	$ 193,402,582	$ 0	$ 214,087	$ 2,525,826	$ 60,672,552	$ 280,553	$ 721

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF TRANSPORTATION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Permanent Fund
FUND BALANCE: July 1, 2003	$ (21,278)	$ 90,361,632	$ 0	$ 3,798,551	$ 814,115	$ 60,005,287	$ 282,885	$ 1,187
ADDITIONS								
Budgeted Revenues & Transfers-In	1,658,515	265,906,262	289,768,811		135,109	22,098,277		13,299
Nonbudgeted Revenues & Transfers-In	334,298	6,986,637			13	30,478	3,073	
Prior Year Revenues & Transfers-In Adjustments	(64,179)	849,813	3,746			186,775		78
Direct Entries to Fund Balance	(2,157,968)	(32,692,646)			(775)	1,214,718		(13,287)
Total Additions	(229,334)	241,050,066	289,772,557	0	134,347	23,530,248	3,073	90
REDUCTIONS								
Budgeted Expenditures & Transfers-Out		256,088,755	255,488,370		92,846	26,153,393		
Nonbudgeted Expenditures & Transfers-Out		7,495,129	34,280,441	3,798,551	30,291	(1,496,806)	7,468	
Prior Year Expenditures & Transfers-Out Adjustments		345,129	3,746		(2,597)	(591,079)		
Total Reductions		263,929,013	289,772,557	3,798,551	120,540	24,065,508	7,468	
FUND BALANCE: June 30, 2004	$ (250,612)	$ 67,482,685	$ 0	$ 0	$ 827,922	$ 59,470,027	$ 278,490	$ 1,277

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF TRANSPORTATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Permanent Fund	TOTAL
TOTAL REVENUES & TRANSFERS-IN BY CLASS								
Licenses and Permits	$ 1,558,645	$ 26,907,030						$ 28,465,675
Taxes	12,565	190,931,898		$ 15	$ 534		$ 12,462	190,957,474
Charges for Services		6,555,217		9,540	22,131,190			28,695,947
Investment Earnings		1,361,179				$ 6,329		1,367,508
Fines, Forfeits and Settlements		71,293						71,293
Sale of Documents, Merchandise and Property		2,052,834			198,338			2,251,172
Rentals, Leases and Royalties		287,207		72,326				359,533
Miscellaneous		497,691		26,131	42,604			566,426
Grants, Contracts, Donations and Abandonments		317,952						317,952
Other Financing Sources	369,551	136,017,121		13,136				136,399,808
Federal			$ 312,334,181					312,334,181
Federal Indirect Cost Recoveries		34,211,481						34,211,481
Capital Contributions				1,787,483				1,787,483
Total Revenues & Transfers-In	1,940,761	399,210,903	312,334,181	1,908,631	22,372,666	6,329	12,462	737,785,933
Less: Nonbudgeted Revenues & Transfers-In	369,551	6,874,427		15	137,930	6,329		7,388,252
Prior Year Revenues & Transfers-In Adjustments	(18,632)	(1,477,405)					(47)	(1,496,084)
Actual Budgeted Revenues & Transfers-In	1,589,842	393,813,881	312,334,181	1,908,616	22,234,736	0	12,509	731,893,765
Estimated Revenues & Transfers-In	1,430,000	416,066,866	325,902,300	1,152,175	26,836,031		2,000	771,389,372
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 159,842	$ (22,252,985)	$ (13,568,119)	$ 756,441	$ (4,601,295)	$ 0	$ 10,509	$ (39,495,607)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS								
Licenses and Permits	$ 148,277	$ 925,768						$ 1,074,045
Taxes	11,565	(4,586,920)					$ 11,509	(4,563,846)
Charges for Services		3,785,832		$ (2,535)	$ (4,650,542)		(1,000)	(868,245)
Investment Earnings		608,078						608,078
Fines, Forfeits and Settlements		(132,017)						(132,017)
Sale of Documents, Merchandise and Property		1,160,704			7,943			1,168,647
Rentals, Leases and Royalties		78,941		(39,774)				39,167
Miscellaneous		(329,789)		23,631	41,304			(264,854)
Grants, Contracts, Donations and Abandonments		(82,048)						(82,048)
Other Financing Sources		(57,667,015)		(12,364)				(57,679,379)
Federal		(75,000)	$ (13,568,119)					(13,643,119)
Federal Indirect Cost Recoveries		34,060,481						34,060,481
Capital Contributions				787,483				787,483
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 159,842	$ (22,252,985)	$ (13,568,119)	$ 756,441	$ (4,601,295)	$ 0	$ 10,509	$ (39,495,607)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF TRANSPORTATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS								
Licenses and Permits	$ 1,581,246	$ 26,691,680						$ 28,272,926
Taxes	13,090	198,525,047		$ 13	$ 712		$ 13,377	198,552,239
Charges for Services		5,385,270		8,552	22,040,680			27,434,502
Investment Earnings		317,731				$ 3,073		320,804
Fines, Forfeits and Settlements		168,009						168,009
Sale of Documents, Merchandise and Property		576,909			249,913			826,822
Rentals, Leases and Royalties		169,405		89,777				259,182
Miscellaneous		433,556		18,559	24,225			476,340
Grants, Contracts, Donations and Abandonments		253,202						253,202
Other Financing Sources	334,298	6,941,462		18,221				7,293,981
Federal			$ 289,772,557					289,772,557
Federal Indirect Cost Recoveries		34,280,441						34,280,441
Total Revenues & Transfers-In	1,928,634	273,742,712	289,772,557	135,122	22,315,530	3,073	13,377	587,911,005
Less: Nonbudgeted Revenues & Transfers-In	334,298	6,986,637		13	30,478	3,073		7,354,499
Prior Year Revenues & Transfers-In Adjustments	(64,179)	849,813	3,746		186,775		78	976,233
Actual Budgeted Revenues & Transfers-In	1,658,515	265,906,262	289,768,811	135,109	22,098,277	0	13,299	579,580,273
Estimated Revenues & Transfers-In	1,602,500	258,148,593	374,325,510	152,175	27,015,398		13,120	661,257,296
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 56,015	$ 7,757,669	$ (84,556,699)	$ (17,066)	$ (4,917,121)	$ 0	$ 179	$ (81,677,023)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS								
Licenses and Permits	$ 58,425	$ 277,320						$ 335,745
Taxes	(2,410)	2,733,325					$ 179	2,731,094
Charges for Services		2,475,480		$ (3,523)	$ (4,922,018)			(2,450,061)
Investment Earnings		(323,797)						(323,797)
Fines, Forfeits and Settlements		(85,545)						(85,545)
Sale of Documents, Merchandise and Property		(606,439)			(11,928)			(618,367)
Rentals, Leases and Royalties		(33,265)		(22,323)				(55,588)
Miscellaneous		(405,953)		16,059	16,825			(373,069)
Grants, Contracts, Donations and Abandonments		(146,798)						(146,798)
Other Financing Sources		(30,232,000)		(7,279)				(30,239,279)
Federal		(75,000)	$ (57,549,689)					(57,624,689)
Federal Indirect Cost Recoveries		34,180,341	(27,007,010)					7,173,331
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 56,015	$ 7,757,669	$ (84,556,699)	$ (17,066)	$ (4,917,121)	$ 0	$ 179	$ (81,677,023)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF TRANSPORTATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	AERONAUTICS PROGRAM	CONSTRUCTION PROGRAM	EQUIPMENT PROGRAM	GENERAL OPERATIONS PROGRAM	MAINTENANCE PROGRAM	MOTOR CARRIER SERVICES DIVISION	STATE MOTOR POOL	TRANSPORTATION PLANNING DIVISION	TOTAL
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT									
Personal Services									
Salaries	$ 391,332	$ 41,981,001	$ 4,524,331	$ 6,604,821	$ 26,834,682	$ 3,287,613	$ 204,446	$ 1,973,754	$ 85,801,980
Other Compensation	3,350	4,336							7,686
Employee Benefits	121,419	11,734,633	1,693,024	1,726,848	9,595,282	1,133,891	77,676	597,593	26,680,366
Personal Services-Other	513		53,650				2,626		56,789
Total	516,614	53,719,970	6,271,005	8,331,669	36,429,964	4,421,504	284,748	2,571,347	112,546,821
Operating Expenses									
Other Services	2,118,059	272,302,764	470,258	8,548,728	19,988,712	48,701	185,756	716,622	304,379,600
Supplies & Materials	58,364	1,673,218	4,030,133	1,333,382	1,540,428	96,804	1,135,538	122,728	9,990,595
Communications	16,457	548,677	8,522	782,051	400,996	59,784	2,675	79,513	1,898,675
Travel	33,688	1,563,248	31,842	205,064	245,938	102,418	81	102,627	2,284,906
Rent	13,340	3,154,622	6,054	298,882	15,323,206	178,137	129,600	110,272	19,214,113
Utilities	40,809	59,679	101,606		2,857,808	75,368	16,494	1,410	3,153,174
Repair & Maintenance	52,754	1,941,386	3,076,570	228,089	15,353,916	69,801	203,566	9,053	20,935,135
Other Expenses	102,592	29,678,375	6,240,203	995,391	201,138	244,044	1,995,382	5,113,931	44,571,056
Goods Purchased For Resale	11,462								11,462
Total	2,447,525	310,921,969	13,965,188	12,391,587	55,912,142	875,057	3,669,092	6,256,156	406,438,716
Equipment & Intangible Assets									
Equipment	12,774	278,950	(3,259,480)	273,043	109,665			23,802	(2,561,246)
Intangible Assets		415,200		44,100				12,478	471,778
Total	12,774	694,150	(3,259,480)	317,143	109,665			36,280	(2,089,468)
Capital Outlay									
Land & Interest In Land		14,318,058			84,138				14,402,196
Buildings		163,318			375,695				539,013
Other Improvements		1,699,400							1,699,400
Total		16,180,776			459,833				16,640,609
Local Assistance									
From Other Income Sources		347,025							347,025
Total		347,025							347,025
Grants									
From State Sources	396,719	3,385,443		16,741,000				1,768,798	22,291,960
From Federal Sources		4,083,852						3,245,132	7,328,984
From Other Sources								242,432	242,432
Total	396,719	7,469,295		16,741,000				5,256,362	29,863,376
Transfers									
Accounting Entity Transfers	382,687			6,563,939					6,946,626
Total	382,687			6,563,939					6,946,626
Debt Service									
Bonds		60,574		750					61,324
Loans							55,726		55,726
Installment Purchases							183,534		183,534
Total		60,574		750			239,260		300,584
Total Expenditures & Transfers-Out	$ 3,756,319	$ 389,393,759	$ 16,976,713	$ 44,346,088	$ 92,911,604	$ 5,296,561	$ 4,193,100	$ 14,120,145	$ 570,994,289
EXPENDITURES & TRANSFERS-OUT BY FUND									
State Special Revenue Fund	$ 1,485,972	$ 97,469,295		$ 43,571,374	$ 87,415,939	$ 5,296,561		$ 2,287,987	$ 237,527,128
Federal Special Revenue Fund	2,097,587	292,138,551		774,714	5,495,437			11,827,892	312,334,181
Debt Service Fund		(214,087)							(214,087)
Enterprise Fund	172,760								172,760
Internal Service Fund			$ 16,976,713		228		$ 4,193,100		21,170,041
Private Purpose Trust Fund								4,266	4,266
Total Expenditures & Transfers-Out	3,756,319	389,393,759	16,976,713	44,346,088	92,911,604	5,296,561	4,193,100	14,120,145	570,994,289
Less: Nonbudgeted Expenditures & Transfers-Out	450,910	28,907,506	(2,876,887)	6,596,143	228		(1,653,160)	5,074,627	36,499,367
Prior Year Expenditures & Transfers-Out Adjustments	1,543	(31)	236,323		(1,545)	14,522	3,366		254,178
Actual Budgeted Expenditures & Transfers-Out	3,303,866	360,486,284	19,617,277	37,749,945	92,912,921	5,282,039	5,842,894	9,045,518	534,240,744
Budget Authority	4,965,396	657,545,574	20,951,741	63,547,571	97,773,589	5,446,453	6,197,763	13,073,068	869,501,155
Unspent Budget Authority	$ 1,661,530	$ 297,059,290	$ 1,334,464	$ 25,797,626	$ 4,860,668	$ 164,414	$ 354,869	$ 4,027,550	$ 335,260,411
UNSPENT BUDGET AUTHORITY BY FUND									
State Special Revenue Fund	$ 446,513	$ 213,563,998		$ 8,187,845	$ 4,124,534	$ 164,414		$ 204,710	$ 226,692,014
Federal Special Revenue Fund	1,046,037	83,495,292		17,609,781	736,134			3,822,840	106,710,084
Enterprise Fund	168,980								168,980
Internal Service Fund			$ 1,334,464				$ 354,869		1,689,333
Unspent Budget Authority	$ 1,661,530	$ 297,059,290	$ 1,334,464	$ 25,797,626	$ 4,860,668	$ 164,414	$ 354,869	$ 4,027,550	$ 335,260,411

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF TRANSPORTATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	AERONAUTICS PROGRAM	CONSTRUCTION PROGRAM	DEBT SERVICE	EQUIPMENT PROGRAM	GENERAL OPERATIONS PROGRAM	MAINTENANCE PROGRAM	MOTOR CARRIER SERVICES DIVISION	STATE MOTOR POOL	TRANSPORTATION PLANNING DIVISION	TOTAL
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT										
Personal Services										
Salaries	$ 379,275	$ 41,772,714		$ 4,319,098	$ 6,545,470	$ 26,569,001	$ 3,200,354	$ 199,519	$ 2,045,241	$ 85,030,672
Other Compensation	4,350	3,550				371				8,271
Employee Benefits	110,459	11,023,283		1,481,443	1,709,203	8,617,193	1,047,816	67,718	589,345	24,646,460
Personal Services-Other	974			44,143				4,235		49,352
Total	495,058	52,799,547		5,844,684	8,254,673	35,186,565	4,248,170	271,472	2,634,586	109,734,755
Operating Expenses										
Other Services	543,466	284,310,246		615,467	8,240,946	18,157,423	26,553	214,011	1,585,063	313,693,175
Supplies & Materials	61,842	1,586,634		4,527,316	1,572,451	1,409,205	113,629	869,485	183,334	10,323,896
Communications	14,925	753,859		7,803	711,604	404,847	61,317	2,450	72,962	2,029,767
Travel	29,421	1,144,422		39,433	179,692	245,288	81,472		116,102	1,835,830
Rent	13,715	2,968,961		10,541	333,417	15,870,213	171,540	26	113,781	19,482,194
Utilities	36,399	64,794		101,353		2,710,525	75,281	15,706	1,232	3,005,290
Repair & Maintenance	68,754	987,291		3,060,473	172,096	18,283,863	52,555	222,689	6,033	22,853,754
Other Expenses	129,321	29,485,756		6,193,727	545,437	728,033	223,886	1,855,825	5,292,650	44,454,635
Goods Purchased For Resale	11,810	240								12,050
Total	909,653	321,302,203		14,556,113	11,755,643	57,809,397	806,233	3,180,192	7,371,157	417,690,591
Equipment & Intangible Assets										
Equipment	19,929	507,170		821	322,035	164,987		(821)	42,602	1,056,723
Intangible Assets		350,500			107,257				9,900	467,657
Total	19,929	857,670		821	429,292	164,987		(821)	52,502	1,524,380
Capital Outlay										
Land & Interest In Land		13,779,571				259,106				14,038,677
Buildings		140,908							(30,682)	110,226
Other Improvements		1,606,497								1,606,497
Total		15,526,976				259,106			(30,682)	15,755,400
Local Assistance										
From Other Income Sources		95,225								95,225
Total		95,225								95,225
Grants										
From State Sources	517,664	100,000			16,741,000				1,612,050	18,970,714
From Federal Sources		3,546,651							2,995,635	6,542,286
From Other Sources									254,927	254,927
Total	517,664	3,646,651			16,741,000				4,862,612	25,767,927
Transfers										
Accounting Entity Transfers	352,520		6,760,491							7,113,011
Total	352,520		6,760,491							7,113,011
Debt Service										
Bonds			3,798,551		750					3,799,301
Loans								213,047		213,047
Total			3,798,551		750			213,047		4,012,348
Total Expenditures & Transfers-Out	$ 2,294,824	$ 394,228,272	$ 10,559,042	$ 20,401,618	$ 37,181,358	$ 93,420,055	$ 5,054,403	$ 3,663,890	$ 14,890,175	$ 581,693,637
EXPENDITURES & TRANSFERS-OUT BY FUND										
State Special Revenue Fund	$ 1,686,320	$ 127,263,836	$ 6,760,491		$ 36,429,340	$ 85,074,323	$ 5,054,403		$ 1,660,300	$ 263,929,013
Federal Special Revenue Fund	487,964	266,964,436			752,018	8,345,732			13,222,407	289,772,557
Debt Service Fund			3,798,551							3,798,551
Enterprise Fund	120,540									120,540
Internal Service Fund				$ 20,401,618				$ 3,663,890		24,065,508
Private Purpose Trust Fund									7,468	7,468
Total Expenditures & Transfers-Out	2,294,824	394,228,272	10,559,042	20,401,618	37,181,358	93,420,055	5,054,403	3,663,890	14,890,175	581,693,637
Less: Nonbudgeted Expenditures & Transfers-Out	443,415	28,980,997	10,559,042	303,571				(1,800,377)	5,628,426	44,115,074
Prior Year Expenditures & Transfers-Out Adjustments	6,099	8,220		(590,308)	(3,427)	373,582	240	(771)	(38,436)	(244,801)
Actual Budgeted Expenditures & Transfers-Out	1,845,310	365,239,055	0	20,688,355	37,184,785	93,046,473	5,054,163	5,465,038	9,300,185	537,823,364
Budget Authority	5,909,449	418,624,094		20,778,697	63,867,344	98,471,021	5,281,607	7,212,981	11,647,619	631,792,812
Unspent Budget Authority	$ 4,064,139	$ 53,385,039	$ 0	$ 90,342	$ 26,682,559	$ 5,424,548	$ 227,444	$ 1,747,943	$ 2,347,434	$ 93,969,448
UNSPENT BUDGET AUTHORITY BY FUND										
State Special Revenue Fund	$ 734,060	$ 28,329,890			$ 11,242,583	$ 3,731,628	$ 227,444		$ 363,444	$ 44,629,049
Federal Special Revenue Fund	3,143,213	25,055,149			15,439,976	1,692,920			1,983,990	47,315,248
Enterprise Fund	186,866									186,866
Internal Service Fund				$ 90,342				$ 1,747,943		1,838,285
Unspent Budget Authority	$ 4,064,139	$ 53,385,039	$ 0	$ 90,342	$ 26,682,559	$ 5,424,548	$ 227,444	$ 1,747,943	$ 2,347,434	$ 93,969,448

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, Debt Service, and Permanent Funds). In applying the modified accrual basis, the department records:

> Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.
>
> Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual leave and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) and Fiduciary (Private-Purpose Trust) fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period earned, when measurable, and records expenses in the period incurred, when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment. Department accounts are organized in funds according to state law applicable at the time transactions were recorded. The department uses the following funds:

Governmental Fund Category

General Fund - to account for all financial resources except those required to be accounted for in another fund.

State Special Revenue Fund - to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific purposes. State Special Revenue Funds include the Highway Special Revenue, Highway Non-Restricted, Petroleum Storage Tank, Series 2005 Grant Anticipation Note Proceeds, Motorboat Fuel Tax, and Aeronautics Division.

Federal Special Revenue Fund - to account for money received from federal sources used for the operation of state government. Federal Special Revenue Funds include activity such as Highway Planning & Construction, Highway Traffic Safety Program, Federal Transportation Administration Grants, and federal grants to the Aeronautics Division.

Debt Service Fund - to account for accumulated resources for the payment of general long-term debt principal and interest. The department used this fund to account for the Series 2005 Grant Anticipation Notes in fiscal year 2004-05 and the Series 1993 Highway Revenue Refunding Bonds in fiscal year 2003-04.

Permanent Fund - to account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the department’s programs. The department uses this fund for the Noxious Weed Management Program.

Proprietary Fund Category

Enterprise Fund - to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; or (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Department Enterprise Funds include the financial activity of the West Yellowstone airport.

Internal Service Fund - to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. Department Internal Service Funds include the State Motor Pool and the Highway Equipment.

Fiduciary Fund Category

Private-Purpose Trust Fund - to account for activity of trust arrangements under which principal and income benefit individuals, private organizations, or other governments. Department Private-Purpose Trust Funds include Woodville Hill Abandonment and Moore-Sipple Connector.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for the fiscal years ended June 30, 2005, and June 30, 2004.

3. Direct Entries to Fund Balance

The majority of the direct entries to fund balance in the State Special Revenue Fund are entries generated by SABHRS to reflect the flow of resources within the Highways Special Revenue Fund and Petroleum Storage Tank Fund shared between the department, the Department of Justice, and the Department of Environmental Quality.

4. Other Financing Sources/ Long-Term Debt

In April 2005, the department recorded bond proceeds for the Series 2005 Grant Anticipation Notes of $122,795,000 and a premium of $6,417,985. These notes were issued to fund the Highway 93

Advance Construction Project. Construction of the project began in September 2004 and is expected to be substantially complete by October 1, 2009. The interest on the Series 2005 Notes is payable semiannually on each June 1 and December 1, beginning December 1, 2005, until maturity unless paid earlier.

5. Activity Between and Within Funds at the Department

During the normal course of operations, the department has transactions within funds and between funds to finance operations, provide services, and service debt. The following describes the activity for the two fiscal years ending June 30, 2005.

Equipment Program

The Equipment Program, which is part of the Internal Service Fund, maintains a fleet of equipment and vehicles for use within the department. Costs are recovered through user fees charged to other programs within the department. Charges for Services revenues are recorded in the Internal Service Fund for the rent of the equipment and the user program records rent expense. The major programs using equipment are the Maintenance Program, the Construction Program, and the Motor Carrier Services Program. Charges for Services revenue for the equipment program was approximately $18.4 million in fiscal year 2004-05 and $18.8 million in fiscal year 2003-04.

Transfers

During fiscal years 2004-05 and 2003-04, approximately $6.56 million and $6.76 million, respectively, were transferred from the State Special Revenue Fund Highway Non-Restricted account to the State Special Revenue Fund Highway Special Revenue account to facilitate accounting. The fiscal year 2004-05 and 2003-04 transfers were made from the General Operations Program and Debt Service Program, respectively.

6. Highway Construction Commitments

At June 30, 2005, the department had contractual commitments of approximately $197.55 million for construction of various highway projects. Funding for these highway projects is to be provided from federal Highway Planning and Construction grants and matching State Special Revenue Funds.

7. Negative Equipment Expenditures

The department records Personal Service, Operating Expense, and Equipment expenditures as it builds equipment (e.g., snow plow sanding trucks) in the Equipment Bureau's Internal Service Fund. When the equipment is placed in operation, it is capitalized and equipment expenditures are reduced by the cost of the equipment. As a result, equipment expenditures are negative by the amount of Personal Services and Operating Expenses capitalized in fiscal year 2004-05.

Department Response

Montana Department of Transportation
2701 Prospect Avenue
PO Box 201001
Helena MT 59620-1001

Jim Lynch, Director
Brian Schweitzer, Governor

October 21, 2005

RECEIVED
OCT 24 2005
LEGISLATIVE AUDIT DIV.

Scott Seacat, Legislative Auditor
Legislative Audit Division
State Capitol Room 160
Helena, MT 59620-1705

Subject: Financial Compliance Audit for Fiscal Years 2003-2004 and 2004-2005

Dear Scott,

Here is our detailed response (including a Management Action Plan) to the audit performed by your office for the two fiscal years ending June 30, 2005. We very much appreciated your staff's effort, cooperation, and professionalism during this audit.

As always, this department is committed to complying with state and federal laws, implementing and maintaining effective accounting controls, and presenting an accurate and fair financial picture.

Sincerely,

for

Jim Lynch
Director

attachments

copies: Monte Brown, Administration Division Administrator
Dennis Sheehy, Internal Audit Unit Manager
Darrell Zook, Accounting Services Bureau Chief

Director's Office
Phone: (406) 444-6201
Fax: (406) 444-7643

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TTY: (800) 335-7592

LAD Audit Recommendations and
Agency Responses

Recommendation #1
We recommend the department implement control procedures over materials testing project charges to ensure compliance with federal cost allowability requirements.

Response
Concur
MDT developed a plan in August 2005 and began implementing additional mitigating internal control procedures by computing the rates earlier, implementing a more formalized review process and establishing a rate verification procedure.

Recommendation #2
We recommend the department calculate indirect cost rates in accordance with federal regulations and state law.

Response
Concur
The Accounting Services Bureau with FHWA and DOA is reviewing the propriety of rate calculations to determine necessary changes. Also note that the previous indirect cost rates and the development processes were reviewed and approved by FHWA.

Recommendation #3
We recommend the department clarify its policies on approving subcontractors to ensure compliance with federal Davis-Bacon Act provisions.

Response
Concur
MDT finalized, in September 2005, the Supplemental specifications regarding subcontracts to ensure compliance with federal Davis-Bacon Act provisions

Recommendation #4
We recommend the department establish management controls to ensure compliance with applicable federal cash management requirements.

Fra…T
write

Response

Concur

Accounting Services Bureau and Highway Traffic Safety Program will establish controls to ensure timely billing. However due to the restricted capabilities of our old cost accounting and billing systems we are unable to improve the timing of our final month end billing. MDT is currently updating the programming of these systems to oracle. Once this is accomplished we will work to improve the timing of our final month end billing. Until then we will be working with the Department of Administration regarding our CMIA agreement and make appropriate changes.

Recommendation #5

We recommend the department:

A. Evaluate, implement, and monitor compliance with control procedures to ensure compliance with federal requirements and Highway Traffic Safety Program policy.

B. Document support for match claimed.

C. Obtain repayment for unallowable subrecipient charges.

Response

A. Concur

The department will continue its efforts in developing and implementing control procedures to ensure compliance.

B. Concur

The department will document support for match claimed.

C. Concur

The department implemented a payment plan to receive repayment of unallowable subrecipient charges. These monies will be paid back by the end of October 2005.

Recommendation #6

We recommend the department improve procedures to ensure collections are adequately safeguarded and properly recorded on its accounting records.

Response

Concur

Response

Concur

Accounting Services Bureau and Highway Traffic Safety Program will establish controls to ensure timely billing. However due to the restricted capabilities of our old cost accounting and billing systems we are unable to improve the timing of our final month end billing. MDT is currently updating the programming of these systems to oracle. Once this is accomplished we will work to improve the timing of our final month end billing. Until then we will be working with the Department of Administration regarding our CMIA agreement and make appropriate changes.

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Response

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B. Concur

The department will document support for match claimed.

C. Concur

The department implemented a payment plan to receive repayment of unallowable subrecipient charges. These monies will be paid back by the end of October 2005.

Recommendation #6

We recommend the department improve procedures to ensure collections are adequately safeguarded and properly recorded on its accounting records.

Response

Concur

The Accounting Services Bureau will review and improve procedures to ensure collections are adequately safeguarded and properly recorded.

Recommendation #7

We recommend the department disburse funds only upon an appropriation made by law.

Response

Concur

The department will disburse funds only upon an appropriation made by law. MDT obtained Legislative authority for these expenditures for the biennium. MDT incorrectly recorded these transactions in the accounting system. Regarding this accounting transaction error MDT:

-Detected the error

-Corrected the error and worked with appropriate internal and external sources (DOA) to ensure through proper adjustments that there would be no financial impact to our financial records as well as the states.

-Initiated and implemented additional mitigating internal controls to ensure this type of error would not occur again.

-Notified DOA, LAD, FHWA, and appropriate MDT officials and staff regarding the error, its impact, the corrective actions, and future controls implemented.

Recommendation #8

We recommend the department record revenues and expenditures in accordance with state law and accounting policy.

Response

Concur

Regarding Collection Allowances and Tribal Payments.

MDT agrees collection allowances and tribal payments should be properly recorded. Since 1991 when the administration of fuel taxes was transferred from the Department of Revenue to MDT these transactions have been handled as currently described. Subsequently MDT has had biennial audits that reviewed and concurred with this accounting treatment. MDT will seek legal opinion and official GAAP opinion through DOA and accepted authorities and comply accordingly.

Front white

Regarding Bond Issuance Costs.
Because of the nature of the transaction and timing there is no correction that can be made. In future bond transactions MDT will properly record issuance costs.

Recommendation #9
We recommend the department establish controls to ensure the accuracy of the transactions recorded for infrastructure assets.

Response
Concur
Accounting Services Bureau will establish and implement controls to ensure the accuracy of the transactions recorded.

Recommendation #10
We recommend the department establish and implement consistent procedures to ensure appropriate accounting for the issuance, custody, and return of cash change funds.

Response
Concur
The Accounting Services Bureau adopted and implemented procedures as a result of a prior audit recommendation. There procedures have not been consistently applied. We will review our procedures and implement controls to ensure they are consistently applied.

Recommendation #11
We recommend the department regularly reconcile travel advances recorded on its Payroll/Personnel system to the state's primary accounting system.

Response
Concur
The department will implement procedures to ensure regular travel advance reconciliation's.

Recommendation #12
We recommend the department:

A. Comply with state laws concerning driver training programs, drivers' license reinstatement fees, distribution of aircraft registration fees and

Regarding Bond Issuance Costs.
Because of the nature of the transaction and timing there is no correction that can be made. In future bond transactions MDT will properly record issuance costs.

Recommendation #9
We recommend the department establish controls to ensure the accuracy of the transactions recorded for infrastructure assets.

Response
Concur
Accounting Services Bureau will establish and implement controls to ensure the accuracy of the transactions recorded.

Recommendation #10
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Response
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The Accounting Services Bureau adopted and implemented procedures as a result of a prior audit recommendation. There procedures have not been consistently applied. We will review our procedures and implement controls to ensure they are consistently applied.

Recommendation #11
We recommend the department regularly reconcile travel advances recorded on its Payroll/Personnel system to the state's primary accounting system.

Response
Concur
The department will implement procedures to ensure regular travel advance reconciliation's.

Recommendation #12
We recommend the department:

A. Comply with state laws concerning driver training programs, drivers' license reinstatement fees, distribution of aircraft registration fees and

B. Seek legislation, if necessary, to amend or clarify state laws concerning driver training programs, drivers' license reinstatement fees, distribution of aircraft registration fees, and liability insurance of commercial air operators.

Response

Concur

The department will review the appropriate laws and processes and take appropriate action to (A) comply with or (B) seek legislation to amend or clarify state law for the above issue.

Management Action Plan - LAD Audits
MDT Financial / Compliance Audit
For the two Fiscal Years Ending June 30, 2002 and 2003

Audit Recommendation #	Does this affect a federal program?	Management View	Corrective Action Plan	Responsible Area	Target Date
Recommendation #1 We recommend the department implement control procedures over materials testing project charges to ensure compliance with federal cost allowability requirements.	Yes	Concur	MDT developed a plan in August 2005 and began implementing additional mitigating internal control procedures by computing the rates earlier, implementing a more formalized review process and establishing a rate verification procedure.	Accounting Services Bureau (ASB)	1/1/2006
Recommendation #2 We recommend the department calculate indirect cost rates in accordance with federal regulations and state law.	Yes	Concur	The Accounting Services Bureau with FHWA and DOA is reviewing the propriety of rate calculations to determine necessary changes. Also note that the previous indirect cost rates and the development processes were reviewed and approved by FHWA.	ASB	4/30/2006
Recommendation #3 We recommend the department clarify its policies on approving subcontractors to ensure compliance with federal Davis-Bacon Act provisions.	Yes	Concur	MDT finalized, in September 2005, the Supplemental specifications regarding subcontracts to ensure compliance with federal Davis-Bacon Act provisions	Construction Bureau	9/30/2005
Recommendation #4 We recommend the department establish management controls to ensure compliance with applicable federal cash management requirements.	Yes	Concur	Accounting Services Bureau and Highway Traffic Safety Program will establish controls to ensure timely billing. However due to the restricted capabilities of our old cost accounting and billing systems we are unable to improve the timing of our final month end billing. MDT is currently updating the programming of these systems to oracle. Once this is accomplished we will work to improve the timing of our final month end billing. Until then we will be working with the Department of Administration regarding our CMIA agreement and make appropriate changes.	ASB, Highway Traffic Safety (HTS)	6/30/2006
Recommendation #5 We recommend the department: A. Evaluate, implement, and monitor compliance with control procedures to ensure compliance with federal requirements and Highway Traffic Safety Program policy. B. Document support for match claimed. C. Obtain repayment for unallowable subrecipient charges.	Yes	Concur	A. The department will continue its efforts in developing and implementing control procedures to ensure compliance. B. The department will document support for match claimed. C. The department implemented a payment plan to receive repayment of unallowable subrecipient charges. These monies will be paid back by the end of October 2005.	ASB, HTS HTS HTS	6/30/2006 1/1/2006 10/31/2005

Audit Recommendation #	Does this affect a federal program?	Management View	Corrective Action Plan	Responsible Area	Target Date
Recommendation #6 We recommend the department improve procedures to ensure collections are adequately safeguarded and properly recorded on its accounting records.	No	Concur	The Accounting Services Bureau will review and improve procedures to ensure collections are adequately safeguarded and properly recorded.	ASB	1/1/2006
Recommendation #7 We recommend the department disburse funds only upon an appropriation made by law.	No	Concur	The department will disburse funds only upon an appropriation made by law. MDT obtained Legislative authority for these expenditures for the biennium. MDT incorrectly recorded these transactions in the accounting system. Regarding this accounting transaction error MDT: a. Detected the error b. Corrected the error and worked with appropriate internal and external sources (DOA) to ensure through proper adjustments that there would be no financial impact to our financial records as well as the states. c. Initiated and implemented additional mitigating internal controls to ensure this type of error would not occur again. d. Notified DOA, LAD, FHWA, and appropriate MDT officials and staff regarding the error, its impact, the corrective actions, and future controls implemented.	ASB, Budget	1/1/2006
Recommendation #8 We recommend the department record revenues and expenditures in accordance with state law and accounting policy.	No	Concur	Regarding Collection Allowances and Tribal Payments.MDT agrees collection allowances and tribal payments should be properly recorded. Since 1991 when the administration of fuel taxes was transferred from the Department of Revenue to MDT these transactions have been handled as currently described. Subsequently MDT has had biennial audits that reviewed and concurred with this accounting treatment. MDT will seek legal opinion and official GAAP opinion through DOA and accepted authorities and comply accordingly. Regarding Bond Issuance Costs. Because of the nature of the transaction and timing there is no correction that can be made. In future bond transactions MDT will properly record issuance costs.	ASB, Fuel Tax Management and Analysis Bureau	6/30/2006
Recommendation #9 We recommend the department establish controls to ensure the accuracy of the transactions recorded for infrastructure assets	No	Concur	Accounting Services Bureau will establish and implement controls to ensure the accuracy of the transactions recorded.	ASB	1/1/2006

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Audit Recommendation #	Does this affect a federal program?	Management View	Corrective Action Plan	Responsible Area	Target Date
Recommendation #10 We recommend the department establish and implement consistent procedures to ensure appropriate accounting for the issuance, custody, and return of cash change funds.	No	Concur	The Accounting Services Bureau adopted and implemented procedures as a result of a prior audit recommendation. There procedures have not been consistently applied. We will review our procedures and implement controls to ensure they are consistently applied	ASB	1/1/2006
Recommendation #11 We recommend the department regularly reconcile travel advances recorded on its Payroll/Personnel system to the state's primary accounting system.	No	Concur	The department will implement procedures to ensure regular travel advance reconciliations.	ASB	6/30/2006
Recommendation #12 We recommend the department: A. Comply with state laws concerning driver training programs, drivers' license reinstatement fees, distribution of aircraft registration fees and B. Seek legislation, if necessary, to amend or clarify state laws concerning driver training programs, drivers' license reinstatement fees, distribution of aircraft registration fees, and liability insurance of commercial air operators.	No	Concur	The department will review the appropriate laws and processes and take appropriate action to (A) comply with or (B) seek legislation to amend or clarify state law for the above issue.	HTS, Aeronautics Division	Next Legislative Session

Note 1: ASB will schedule quarterly meetings with the Director's office to give a Corrective Action Plan status update.

Note 2: ASB will schedule quarterly meetings with responsible areas to monitor corrective actions.